

# **Current Situation and Development Strategy of China New Star Oil Corporation**

**Zhou Baixiu - Deputy General Manager**

November 1998

Mr. Chairman, Ladies and Gentlemen,

I am very glad to be present at this SINO-US forum on petroleum. I would like to take this opportunity to give a brief account of current situation and development strategy of China New Star Oil Corporation (CNSOC).

China New Star Oil Corporation, since its founding in 1996 with the approval from the State Council, has made great achievements in economic development and internal reform. In the first year after its founding, i.e., in 1997, economic operation situation of the corporation was excellent. Our corporation overfulfilled all its planned economic targets for that year. The total operation value of the whole corporation, production added value and enterprise accumulates went up by 20.47%, 21.53 and 24.38% respectively over those for the year before. In the current situation of consistent oil price dropping and dull sale, the corporation still manages to hold profit growing momentum without any operation loss.

The corporation is organized on the basis of oil and gas exploring and developing team of former Ministry of Geology and Mineral Resources. This team, since its organization in 1955, has for long undertaken tasks of oil and gas exploring for the country. This team has its superiority in oil and gas exploration. For a year after its founding, CNSOC continues to bring its superiority in oil and gas exploration into full play, putting oil and gas exploration in the first place and increasing input into oil and gas exploration. In 1997, newly added proven and controlled oil and gas reserves in place amounted to 76 million tons, record high in the corporation's history. Anticipated newly added proven and controlled oil and gas reserves in place for this year will be 100 million tons. Gratifying exploration results have been obtained in key exploring areas such as Tabei oil area and west Sichuan. Successive big breakthroughs have been made in northern part of Tarim basin and Tahe oil area, making the area take a profile of a big oilfield of 100 million-ton class. At present, CNSOC is pressing without letup and going all out to finish exploration of Tahe oilfield next year so as to turn over an oilfield with 100 million tons of proven and controlled oil and gas reserves in place to the state. In the meantime, the corporation's crude oil output in Tarim basin for next year is expected to be doubled compared with that for this year to reach one million tons. In Sichuan basin, in addition to the turn over of Xinchang gas field, which is a large complete-set gas field with 60 billion m<sup>3</sup> gas reserves and located in Xiaoquan-Xinchang-Hexingchang area in west Schuan basin, great breakthroughs have been made in Luodai-Jintang-Xindu area in the past 2 years, which has an anticipated gas reserve of more than 30 billion m<sup>3</sup> in place. Luodai gas field will become another large complete-set gas field in west Sichuan. 30 billion m<sup>3</sup> of gas reserve to be approved will be turned over in west Sichuan this year. By that time, the corporation's total gas reserves in place in west Sichuan will be more than 100 billion m<sup>3</sup>. An annual natural gas production capacity of one billion m<sup>3</sup> has been formed in west Sichuan area, and the capacity is planned to be boosted to 1.5 billion m<sup>3</sup> in two years. Further more, our corporation has made new discoveries in

southern border of Jiangnan basin, south Erdos basin, south Songliao basin and north Jiangsu basin.

All the above mentioned achievements can not be separated from internal structural reform and readjustment. Now, the whole corporation is promoting strategic restructuring of the enterprise and accelerating establishment of oil company system in line with the thought—“oil companies highly concentrated, specialized companies relatively independent, base services separated, multiple operation companies implementing autonomous management and financially independent”. It is anticipated that, in the third year after the founding of the corporation, or in 1999, all economic targets will be doubled compared with those when the corporation was founded. Oil and gas output will grow from 1.3887 million tons of oil equivalent for 1996 to 2.89 million tons of oil equivalent for 1999. Proven oil and gas reserves will grow from 100 million tons for 1996 to 250 million tons for 1999. Enterprise accumulates will grow from 850 million yuan for 1996 to 1700 million yuan for 1999. Tax delivered to the state will grow from 109 million yuan for 1996 to 270 million yuan for 1999.

Although our corporation has made great achievements in reform and development in a year since its founding, we are facing many problems and challenges in the course of development of the corporation. Firstly, our corporation is in its early stage, and it has a poor foundation to start, and is weak in economic power. Secondly, with the organization of two large groups, one oil group and one petrochemical group in China, market competition is becoming fiercer and fiercer. Thirdly, international oil price is dropping consistently while oil and gas exploration and development cost remains at high level. Nevertheless, we have much confidence in the future of CNSOC. To realize rapid development of CNSOC, as soon as its founding, strategy for general development up to the year 2005 was formulated. According to the development strategy, consideration will be given to both on-land oil exploration and offshore oil exploration; oil and gas exploration will be carried out concurrently; internal combination and external exploitation will receive equal attention, diversified development will be pursued; and the corporation will be built into a modern oil corporation with strong comprehensive power.

For realization of this strategy, following measures will be taken:

The first is to grasp exploration firmly and go all out to promote development of the main business—oil and gas exploration. Up to now, insufficient backup reserves and replacing area for oil and gas exploration have become an important factor, which restricts sustainable and steady development of China's oil industry and national economy. As far as CNSOC is concerned, with poor foundation to start, only by intensifying exploration to have more proven oil and gas reserves, can the corporation grow stronger technologically and economically so as to make greater contributions to economic growth of the whole country. With this in our minds, we fully realize that it is our foundation for foothold to intensify oil and gas exploration. In step with intensifying oil and gas exploration, our corporation will strengthen power for oil and gas development and strive to achieve an annual oil and gas output of 4 million tons of oil equivalent by the year 2000 to bring about greater growth in our comprehensive economic power.

The second is to intensify natural gas exploration and comprehensive utilization and actively exploit natural gas processing industry. The composition structure of energy resources experienced two ages this century, namely coal age and oil age. With ever higher requirement on the quality of human's living environment,

natural gas, as an efficient and clean fossil fuel, will become one of the most important substitute energy source in world economic development. Experts estimate that the 21st century will be a natural age. Therefore, when developed countries are giving close concern to environment on the earth, most developing countries including China have begun to readjust their economic policies and energy policies, combining their own economic development closely with environment protection. They are doing their utmost to make their economic development in pace with environment protection, taking a road for sustainable development. CNSOC will, with possession of large amount of proven natural gas reserves, still bring its superiority in natural gas exploration into play and actively exploit natural gas downstream markets to make its contribution to the development of China's natural gas industry and improvement of human's living environment.

The third is to speed up internal structure reform, make efforts to reduce oil and gas exploration cost and raise economic efficiency by means of scientific progress. With consistent dropping of world oil price and ever increasing difficulty in oil and gas exploration and development, how to reduce the cost of exploration and development has become a target vied by oil companies with each other. CNSOC will actively promote internal system reform and structure readjustment within the corporation. By straightening out management structure, optimizing resource allocation and raising all employees' sense of cost, efficiency will come from improved management, and development from reform. In the meantime, we will increase input, intensify study on problems, which need urgent solution during production, intensify popularization and conversion of research results, intensify technological reform and introduce both domestic and foreign up-to-date and applicable technologies and equipment in a planned way to provide technical support and guarantee for reduced cost and increased efficiency.

The fourth is to make efforts to promote opening to the outside world and actively exploit international markets. Rapid development of China's economy can not be separated from opening to the outside world. The same is even true of development of oil industry. That has been demonstrated by the development of China National Offshore Oil Corporation. CNSOC will actively promote opening of area blocks to the outside world, exchanging technologies and funds with markets and strengthening cooperation with foreign companies on the basis of mutual profit and benefit. In the meantime, we will actively seek foreign projects of oil and gas exploring, actively exploit international engineering markets and take part in international competition.

CNSOC's development and growth can not be separated from support from and cooperation with international companies of the same trade, particularly, that from US companies of the same trade. During President Clinton's visit to China last June, the governments of the two countries agreed to strengthen cooperation between them in the field of energy and environment protection. With Support from the governments of the two countries, CNSOC is expecting strengthened cooperation with US oil companies and mutual development.

Thank you.